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C O N F I D E N T I A L SECTION 01 OF 08 OECD PARIS 00980

E.O. 11652: GDS
TAGS: OECD' ENRG
SUBJECT: TEXT OF BURROWS GROUP PAPER

REF: RAITCH/LEVINE TELECON

AS REQUESTED, THERE FOLLOWS THE TEXT OF THE
BURROWS GROUP PAPER, CONSEQUENCES OF THE OPEC DOHA
MEETING, DECEMBER 1976." THIS PAPER BEARS OECD
CLASSIFICATION HIGHLY CONFIDENTIAL.

BEGIN TEXT

CONSEQUENCES OF THE OPEC DOHA MEETING, DECEMBER 1976

1. THE GROUP WAS INSTRUCTED BY THE GOVERNING BOARD TO
DRAFT GUIDANCE ON THE POSSIBLE CONSEQUENCES OF THE DOHA
DECISIONS IN RESPECT OF THE CONCLUSION OF THE CIEC. IT
WAS ALSO ASKED TO PRODUCE RELIABLE AND EASILY USEABLE
FIGURES SHOWING THE RELATIONSHIP BETWEEN OIL PRICES AND
OECD EXPORTS AND TO EVALUATE THE IMPACT ON DEVELOPING
COUNTRIES OF THE NEW OIL PRICES WHEN OFFSET BY THE
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PLEDGED INCREASES IN OPEC AID. THREE PAPERS ARE SUB-
MITTED ACCORDINGLY. THE COMMON INTRODUCTION WHICH
FOLLOWS ATTEMPTS A PRELIMINARY REVIEW OF THE IMPLICA-
TIONS OF THE DOHA DECISIONS.

INTRODUCTION

2. FOR THE FIRST TIME SINCE THE OIL CRISIS OF 1973 OPEC'S MEMBERS HAVE FAILED TO AGREE ON A SINGLE BASIC PRICE RISE FOR THEIR OIL. THEY HAVE ALSO FAILED TO AGREE ON THE EXTENT TO WHICH THEIR EXPORT EARNINGS HAVE BEEN ERODED IN REAL TERMS BY RISING PRICES OF GOODS IMPORTED FROM THE INDUSTRIALIZED COUNTRIES. THESE DISAGREEMENTS AFFECT RELATIONSHIPS WITHIN OPEC AND, TOGETHER WITH THE DECISIONS TAKEN ON OIL PRICES, WILL ALSO AFFECT RELATIONS BETWEEN OPEC ON THE ONE HAND AND THE INDUSTRIALIZED AND ENERGY DEFICIENT DEVELOPING COUNTRIES ON THE OTHER. OF PARTICULAR SIGNIFICANCE IS THE ISOLATION OF SAUDI ARABIA, THE KEY PRODUCER, FROM THE BULK OF OPEC MEMBERS.

3. SOME RELIEF HAS BEEN EXPRESSED AMONG CONSUMERS AT THE SAUDI AND UAE DECISION, BUT EVEN A 5 PER CENT PRICE RISE PRESENTS WITH WORLD ECONOMY WITH SERIOUS PROBLEMS. HAD SUCH A RISE BEEN GENERALLY AGREED, THE COST TO ALL OECD CONSUMERS WOULD HAVE BEEN ABOUT \$6 BILLION IN 1977. IT REMAINS TO BE SEEN WHAT THE AVERAGE RISE WILL BE FOLLOWING THE DOHA DECISION, BUT THE COST IS LIKELY TO BE SUBSTANTIALLY HIGHER. IN ADDITION, AFTER ACRIMONIOUS DEBATE AND THE VIRTUAL ISOLATION OF THE SAUDI REPRESENTATIVE, THE FACT THAT 11 MEMBERS RESOLVED TO CHARGE ONE PRICE WHILE TWO OPTED FOR ANOTHER NOT ONLY RAISES COMPLEX QUESTIONS IN THE WORLD OIL MARKET BUT ENHANCES EXISTING POLITICAL RIVALRIES, PARTICULARLY IN THE MIDDLE EAST.

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4. SINCE DOHA, WHILE REITERATING SAUDI ARABIAN DETERMINATION TO STEP UP PRODUCTION AS REQUIRED, SHEIKH YAMANI HAS JUSTIFIED THE SAUDI DECISION IN TERMS OF:-

- A) THE FEAR THAT THE WORLD ECONOMY, WITH RECOVERY STILL FALTERING, COULD NOT TAKE A 10 OR 15 PER CENT PRICE RISE;
- B) THE CONSEQUENTIAL FEAR THAT POLITICAL INSTABILITY WOULD INCREASE IN CERTAIN INDUSTRIALIZED COUNTRIES TO THE BENEFIT OF THE COMMUNISTS;
- C) THE HOPE THAT A MODERATE RISE WOULD ENCOURAGE ALL CONCERNED, AND PARTICULARLY THE NEW US ADMINISTRATION, TO WORK FOR AN EARLY AND ACCEPTABLE SETTLEMENT OF THE ARAB/ISRAELI DISPUTE;
- D) THE ASSERTION THAT SAUDI PRICE MODERATION SHOULD BE MET BY CONCESSIONS BY THE INDUSTRIALIZED COUNTRIES PARTICIPATING IN THE NORTH/SOUTH

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DIALOGUE.

THE SAUDIS HAVE INDICATED THAT THEY EXPECT THE
INDUSTRIALIZED COUNTRIES TO TAKE VARIOUS STEPS TO
RESTRAIN OIL CONSUMPTION.

5. OF THE 11 OPEC MEMBERS WHO OPTED FOR A 10 PER CENT
RISE, WITH A FURTHER 5 PER CENT TO FOLLOW ON 1 JULY,
SOME HAVE PUBLICLY ANNOUNCED THE FULL RANGE OF CONSE-
QUENTIAL PRICE INCREASES, THUS ADOPTING POSITIONS
FROM WHICH RETREAT WILL BE MORE DIFFICULT. A PARTICU-
LARLY HARD LINE HAS BEEN ADOPTED BY THE IRANIAN GOVERN-
MENT, WHICH HAS MADE IT CLEAR THAT IT WILL ENFORCE THE
SECOND STAGE INCREASE. OTHERS OF THE 11 HAVE ALREADY
SHOWN SOME INCLINATION TO SHADE THE PRICE INCREASE.
THUS THE "TEN PERCENTERS" ARE BY NO MEANS MONOLITHIC.

6. IT WILL CERTAINLY TAKE SEVERAL WEEKS BEFORE PRICING
AND PRODUCTION PATTERNS EMERGE. THE SAUDI INTENTION
IS THAT THE 11 SHOULD BE COMPELLED BY MARKET FORCES TO
LOWER THEIR PRICES AND THE SAUDIS ARE RELYING ON SUPPORT
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FROM CONSUMER GOVERNMENTS TO BRING THIS SITUATION ABOUT. THEIR ATTITUDE AT THE NEXT OPEC MEETING, NOW SCHEDULED FOR 12 JULY, IS LIKELY TO BE AFFECTED BY THEIR ESTIMATE OF THE POLITICAL AND ECONOMIC RESPONSE WHICH THEIR "MODERATION" AT DOHA ELICITED. IN THE MEANTIME THE SAUDIS ARE LIKELY TO BE EXPOSED EXTERNALLY TO CONSIDERABLE ADVERSE PROPAGANDA, WHILE INTERNALLY THE DECISION TO PRODUCE OIL ON A SCALE FAR BEYOND THE IMMEDIATE FINANCIAL NEEDS OF THE COUNTRY MAY ENGENDER GROWING OPPOSITION. THE PROBLEM OF SAUDI FINANCIAL ASSETS MAY BECOME MORE INTRACTABLE. WHILE SAUDI MODERATION IN OIL PRICING MAY BE WELCOME TO THE ENERGY DEFICIENT DEVELOPING COUNTRIES, THE LATTER WILL AT BEST BE ABLE TO EXERT ONLY MARGINAL INFLUENCE WITHIN THE G 19.

7. THE INDUSTRIALIZED COUNTRIES NOW FACE A CONSIDERABLE DILEMMA WITHIN A TIGHT TIME FRAME AND AGAINST THE BACKGROUND OF MANY UNCERTAINTIES. THE SAUDI REQUIREMENTS, WHOSE EXACT NATURE STILL NEEDS TO BE DETERMINED, CAN ONLY BE MET AT FINANCIAL AND POLITICAL COST. IF THEY ARE SATISFIED TO AN ACCEPTABLE EXTENT THE REWARD MIGHT BE CONTINUING MODERATION IN OIL PRICING. IF THEY ARE NOT MET, IT SEEMS VERY POSSIBLE THAT THE SAUDIS WILL FALL INTO LINE WITH THE REST OF OPEC. THERE MIGHT THEREAFTER BE AN ENHANCED TENDENCY ON THE PART OF THE SOUTH TO USE THE OIL WEAPON AND - FOR WHAT THEY MAY BE WORTH - ANY OTHER ECONOMIC WEAPONS AVAILABLE TO THEM TO COMPEL THE NORTH TO MAKE COSTLY CONCESSIONS. WHATEVER HAPPENS AT THE CIEC, SUCH PRESSURE IS LIKELY TO CONTINUE TO BE APPLIED IN OTHER FORA.

IMPLICATIONS OF DOHA DECISIONS FOR THE CIEC

1. WE HAVE CONSISTENTLY REJECTED THE CONCEPT OF A LINK BETWEEN THE OPEC DECISION AND THE CIEC OUTCOME, AND OUR CONFIDENTIAL

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ATTITUDE TOWARDS THE PROBLEMS DEALT WITH IN CIEC HAS NOT BEEN DIRECTLY DETERMINED BY OPEC DECISIONS ON THE PRICE OF OIL. OUR POLICIES IN RELATION TO OTHER COMMODITIES AND TO DEVELOPMENT AID ARE DETERMINED PRIMARILY IN RELATION TO THE NEEDS OF THE DEVELOPING COUNTRIES AND TO THE LONG TERM ECONOMIC INTEREST OF THE INDUSTRIALIZED WORLD. IF THE CIEC IS TO BE BROUGHT TO A REASONABLY SUCCESSFUL CONCLUSION, SOME MOVEMENT WILL BE NEEDED IN THE THREE OTHER COMMISSIONS: BUT THIS NEED WAS ALREADY EVIDENT BEFORE THE OPEC MEETING.

TIMING OF RESUMPTION

2. IN CONSIDERING THE TIMING OF RESUMPTION OF THE CIEC AND OF A POSSIBLE MINISTERIAL MEETING, THE FOLLOWING POINTS WILL BE RELEVANT:-

- A) 11 OPEC MEMBERS ARE PLEDGED TO RAISE PRICES BY A FURTHER 5 ON 1 JULY AND THE IRANIAN GOVERNMENT HAS ALREADY PUBLICLY STATED ITS DETERMINATION TO DO SO;
- B) OPEC IS SCHEDULED TO HOLD ITS NEXT MEETING ON 12 JULY;
- C) TIME MUST BE ALLOWED FOR THE NEW US ADMINISTRATION TO SURVEY THE SITUATION;
- D) MARCH WILL BE LARGELY TAKEN UP WITH THE NEGOTIATING SESSION ON THE COMMON FUND, WHICH MAY NOT BE CONCLUSIVE AND WHICH COULD AFFECT

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THE POTENTIAL CIEC ATMOSPHERE;
E) THE POSSIBILITY OF OTHER IMPORTANT MEETINGS
- E.G. AN ECONOMIC SUMMIT - SHOULD BE TAKEN
INTO ACCOUNT.

3. THE G19 HAVE INDICATED THAT THEY EXPECT RESUMPTION
EARLY IN 1977, BUT IT WILL CLEARLY BE IMPORTANT TO

AVOID RECOMMENCING THE CIEC UNTIL AN AGREED G8 POSITION IS REACHED. IF, AS SEEMS POSSIBLE, THAT POSITION IS ONE WHICH DOES NOT GO FAR TO MEET G19 REQUIREMENTS, THE POSSIBILITY OF FURTHER POSTPONEMENT WILL NEED TO BE CONSIDERED. THERE WILL BE MUCH SCOPE FOR CONSULTATION BETWEEN THE MEMBERS OF THE G8 AND ALSO BETWEEN THE CO-CHAIRMEN. WHILE RESUMPTION IN MAY OR EARLY JUNE IS ON THE CARDS, DEVELOPMENT OF AGREED POSITIONS SEEMS LIKELY TO TAKE TIME. IT WOULD OBVIOUSLY NOT BE DESIRABLE TO ENVISAGE ANY PROGRAMME THAT RISKED HOLDING A FINAL SESSION SHORTLY BEFORE THE NEXT OPEC MEETING. OF COURSE THE LATTER CAN BE ARRANGED AT SHORT NOTICE, BUT TACTICALLY THERE IS MUCH TO BE SAID FOR A CIEC

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CONCLUDING SESSION THAT FOLLOWS, NOT PRECEDES, OPEC.

THE SAUDI ARABIAN POSITION

4. DOHA HAS FOCUSSED INCREASED ATTENTION ON THE SAUDI POSITION. SAUDI ARABIA ALREADY PROVIDES THE CO-CHAIRMAN OF THE ENERGY COMMISSION AND IF DISAGREEMENT, AND PERHAPS ACRIMONY, PERSISTS WITHIN OPEC HIS POSITION MAY BECOME INCREASINGLY DIFFICULT. THE DOHA DECISION IS ALSO LIABLE TO MAKE AGREEMENT WITHIN THE G19 MORE DIFFICULT, AND THUS INTRODUCE NEW STRAINS INTO THE NEGOTIATING PROCESS AT THE CIEC: ESPECIALLY AS OTHER OPEC MEMBERS (ALGERIA AND IRAN) PROVIDE THE CO-CHAIRMEN OF THE DEVELOPMENT AND FINANCE COMMISSIONS. THE G8 SHOULD CONSIDER AS A MATTER OF URGENCY HOW FAR IT IS DESIRABLE AND PRACTICABLE TO GIVE THE SAUDIS SATISFACTION ON THEIR VARIOUS REQUIREMENTS. WHILE IT WILL ALMOST CERTAINLY BE IMPOSSIBLE TO MEET THEM ON ALL (AND CERTAINLY IMPOSSIBLE TO DO SO BEFORE JULY 1, GIVEN FOR EXAMPLE THE LIKELY PROGRAMME FOR POLITICAL DEVELOPMENTS IN THE MIDDLE EAST) SOME ENCOURAGEMENT AND SOME EVIDENCE OF WILLINGNESS OR PROGRESS ON PRACTICAL MATTERS (E.G. REDUCED CONSUMPTION) MIGHT SUFFICE TO PERSUADE THE SAUDIS TO HOLD THEIR POSITION INTO THE SECOND HALF OF THE YEAR.

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5. THE FOLLOWING POINTS MIGHT BE SUITABLE FOR ATTRIBUTABLE OR UNATTRIBUTABLE USE IN THE MONTHS AHEAD:-

- A) EVEN A 5 RISE WOULD HAVE DAMAGING EFFECTS ON OVERALL ECONOMIC ACTIVITY.
- B) A FORTIORI A 10 OR 15 RISE WILL MAKE A FAR MORE SERIOUS IMPACT: A 10 RISE WOULD ADD ABOUT \$12 BILLION TO OECD'S 1977 IMPORT BILL;

C) THERE WILL ALSO BE INDIRECT EFFECTS: IF
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THE MOMENTUM OF RECOVERY SLOWS DOWN OUR MARKET
WILL ABSORB FEWER GOODS FROM DEVELOPING COUNTRIES;
D) THE DOHA DECISION WILL INEVITABLY INCREASE
THE ECONOMIC PROBLEMS OF THE DEVELOPING WORLD,
WHICH THE WHOLE CIEC DIALOGUE IS ABOUT.

ENERGY PACKAGE

6. AS STATED ABOVE, THE OUTCOME OF THE CIEC IS LIKELY
TO DEPEND ON PROGRESS IN ALL COMMISSIONS. SO FAR AS
ENERGY IS CONCERNED, THE DOHA DECISION HAS UNDERLINED
THE NECESSITY FOR A CONTINUING DIALOGUE BETWEEN OIL
PRODUCING AND OIL CONSUMING COUNTRIES. THE BASIC
ASSUMPTIONS UNDERLYING THE "ENERGY PACKAGE" AIMED AT
BY THE INDUSTRIALIZED COUNTRIES REMAIN VALID. IT
REMAINS TO BE SEEN HOW HARD THE SAUDIS WILL NOW PUSH
THEIR DEMANDS ON PROTECTION OF SAUDI ARABIAN FINANCIAL
ASSETS. THE LONGER RESUMPTION OF THE CIEC IS DELAYED,
THE MORE TIME THERE WILL BE TO ADVANCE CONSIDERATION
OF POSSIBLE MECHANISMS FOR CONTINUING THE ENERGY
DIALOGUE, INCLUDING THE IEI. THE FOLLOWING POINTS
MIGHT BE MADE:-

A) ONE UNDOUBTED ADVANTAGE THAT HAS BEEN GAINED
IN THE 1976 SESSIONS OF THE CIEC IS THAT ALL
CONCERNED ARE NOW MUCH MORE FULLY AWARE OF THE
IMPORTANCE OF ENERGY IN WORLD ECONOMIC AFFAIRS
AND OF THE ESSENTIAL INTER-RELATIONSHIP BETWEEN
PRODUCER AND CONSUMER INTERESTS;

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B) THERE IS GROWING REALIZATION THAT THE
CONTINUATION OF SUCH CONSULTATION IS IN THE
INTEREST OF ALL PARTIES TO THE CIEC;
C) THERE IS REASON TO HOPE THAT PRACTICAL
COOPERATION IN ENERGY R AND D AND IN THE
TRANSFER OF TECHNOLOGY TO DEVELOPING COUNTRIES
WILL BE ENCOURAGED BY FURTHER CONSULTATION.

THE PURCHASING POWER OF OPEC OIL REVENUES

WIDELY DIFFERING CALCULATIONS OF HOW THE PURCHASING
POWER OF OPEC OIL REVENUES HAS BEEN ERODED SINCE THE
PRICE ADJUSTMENT OF OCTOBER 1, 1975 HAVE BEEN PRODUCED
BY OPEC AND THE INDUSTRIALIZED NATIONS. FOR EXAMPLE,
THE ECONOMIC COMMISSION OF OPEC MET RECENTLY AND CON-
CLUDED THAT THE PRICE OF OPEC IMPORTS OVER THE 15
MONTH PERIOD WILL HAVE GONE UP BY 26 PER CENT. EXPERTS
WHO PARTICIPATED IN THESE STUDIES INDICATE THAT MILITARY
PURCHASES ARE NOT INCLUDED IN THESE ESTIMATES AND,
WHILE AN ALLOWANCE HAS BEEN MADE FOR TRANSPORTATION
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COSTS, THE LARGE DEMURRAGE CHARGES INCURRED BY SEVERAL
OPEC COUNTRIES HAVE BEEN EXCLUDED. (SEE FOOTNOTE 1).
GENERALLY SPEAKING, IT IS NOT POSSIBLE TO CHECK THE
OPEC RESULTS SINCE THERE ARE NO TRULY REPRESENTATIVE
PRICE INDICES FOR THESE COUNTRIES. IRAN AND VENEZUELA
DO PUBLISH IMPORT PRICE INDICES WHICH REFER TO THE
IMPORT COMPONENT OF THE NATIONAL WHOLESALE PRICE INDEX,
HOWEVER, THESE INDICES ARE SUSCEPTIBLE TO CHANGES IN
TARIFFS, TAXES, PRICE CONTROLS AND DOMESTIC MARGINS.
THEREFORE, IT IS NOT POSSIBLE TO USE THESE INDICES AS
AN INDICATION OF MOVEMENTS IN IMPORT PRICES BY THEMSELVES.

FOOTNOTE 1. FINANCIAL TIMES REPORT DECEMBER 13, 1976
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AT THE SAME TIME, THE INDUSTRIALIZED NATIONS HAVE

PRESENTED ANALYSES INDICATING THAT PURCHASING POWER OF OPEC OIL REVENUES HAS REMAINED NEARLY CONSTANT OVER THIS PERIOD. IN A WELL DOCUMENTED AND CONCISELY ARGUED PAPER, THE PETROLEUM INDUSTRY RESEARCH FOUNDATION OF NEW YORK HAS ESTIMATED THAT THE FOB COSTS OF INDUSTRIALIZED WORLD EXPORTS TO OPEC HAS INCREASED BY ONLY 2.7 PER CENT OVER THE SAME PERIOD.

TABLE 1 PRESENTS SEVERAL ALTERNATIVE MEASURES OF EXTERNAL AND INTERNAL PRICE INFLATION AS CALCULATED BY THE OECD, IMF, AND UN. THE FIRST FOUR COLUMNS ARE ALL BASED ON EXPORT UNIT VALUES, CALCULATED BY NATIONAL STATISTICAL AUTHORITIES, AND SUBSEQUENTLY CONVERTED INTO DOLLARS AT CURRENT EXCHANGE RATES. THE MINOR DIFFERENCES BETWEEN THESE SERIES CAN BE ACCOUNTED FOR BY SLIGHT DIFFERENCES IN COUNTRY COVERAGE, COMMODITY COMPOSITION, OR EXCHANGE RATES USED IN THE CONVERSION. COLUMNS 5 TO 7 PRESENT MEASURES OF INTERNAL AND EXTERNAL INFLATION FOR OECD COUNTRIES IN LOCAL CURRENCY TERMS. THE LAST COLUMN OF THE TABLE PRESENTS

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AN INDEX OF HOST GOVERNMENT TAKE FOR ARABIAN LIGHT 34 DEGREES. THIS INDEX HAS NOT BEEN ADJUSTED TO TAKE INTO ACCOUNT CHANGES IN CREDIT TERMS, DISCOUNTS, OR SPOT MARKET SALES AND, THEREFORE, IT MAY SLIGHTLY OVERSTATE THE ACTUAL RISE IN GOVERNMENT TAKE IN LATE 1975 AND UNDERSTATE THE RISE IN THE SECOND HALF OF 1976.

THE RESULTS IN TABLE 1 INDICATE THAT BETWEEN 1974 Q1 AND 1976 Q3, OECD EXPORT PRICES EXPRESSED IN US DOLLARS ROSE BY 26 PERCENT WHILE HOST GOVERNMENT TAKE FOR CRUDE OIL ROSE ALMOST 20 PERCENT. IF THE PERIOD SINCE THE LAST OIL PRICE RISE IS CONSIDERED (1975 Q3 TO 1976 Q3), THE UNIT VALUE OF OECD EXPORTS ROSE ONLY 4.3 PERCENT COMPARED TO THE RISE IN HOST GOVERNMENT REVENUE PER BARREL OF 10.1 PERCENT.

THE SUMMARY TABLE BELOW OUTLINES THE TREND IN THE INDEX OF OPEC TERMS OF TRADE WITH THE OECD. IT SHOWS THAT, BETWEEN 1974 Q1 AND 1976 Q3, THIS INDEX DECLINED BY ONLY 5.2 PERCENT. THE CORRESPONDING DECLINE UNTIL THE END OF 1976 IS EXPECTED TO BE 7.2 PERCENT. IF 1975 Q3 IS USED AS A REFERENCE POINT, THE RESULTS INDICATE THAT OPEC'S TERMS OF TRADE IMPROVED BY 5.6 PERCENT. THUS LEAVING ASIDE ALL OTHER FACTORS RELEVANT TO THE PRICING OF OIL, A RISE IN HOST GOVERNMENT TAKE OF 5 - 7 1/2 PERCENT WOULD SUFFICE TO COMPENSATE FOR ANY LOSS OF OPEC PURCHASING POWER BETWEEN JANUARY 1974

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THE HISTORICAL PEAK OF OPEC TERMS OF TRADE AND THE
END OF 1976.

IF OCTOBER 1975 IS TO BE USED AS A REFERENCE POINT,
THE RESULTS SUGGEST THAT NO RISE IN GOVERNMENT REVENUES
WOULD BE REQUIRED IN ORDER TO MAINTAIN CONSTANT PUR-
CHASING POWER.

SUMMARY TABLE

DEVELOPMENT OF OPEC TERMS OF TRADE (A)

(1974Q1 EQUALS 100) (1975Q3 EQUALS 100)

1974Q1	100.0	
Q2	90.5	
Q3	87.3	
Q4	88.4	
1975Q1	86.1	
Q2	86.1	
Q3	89.8	100.0

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Q4	100.3	111.7
1976Q1	98.3	109.5
Q2	96.8	107.8
Q3	94.8(B)	105.6
Q4	92.8(B)	103.4

(A) INDEX NUMBERS OF HOST GOVERNMENT UNIT REVENUE
(COLUMN 8, TABLE 1) DIVIDED BY OECD EXPORT UNIT VALUE
INDEX IN \$ US (COLUMN 4, TABLE 1).

(B) BASED ON PRELIMINARY SECRETARIAT ESTIMATES OF
OECD EXPORT UNIT VALUES FOR 1976 Q4 AND UNCHANGED HOST
GOVERNMENT REVENUE.

TABLE 1

SELECTED INDICATORS OF PRICE PERFORMANCE
IN INDUSTRIAL COUNTRIES

INDICES IN U.S. DOLLARS

IMF INDEX, U.N. INDEX, U.N. INDEX, OECD INDEX
EXPORT UNIT EXPORT UNIT EXPORT UNIT OF
VALUES OF VALUES OF VALUES OF EXPORT
INDUSTRIAL DEVELOPED MANUFACTURED UNIT
COUNTRIES ECONOMIES GOODS VALUES
(1) (2) (3) (4)

1974 Q1 EQUALS 100

1974 Q2	111.1	111.0	111.0	110.5
Q3	115.0	114.9	115.1	115.1
Q4	119.6	120.7	120.6	119.7
1975 Q1	128.7	127.2	128.9	126.2
Q2	128.1	126.6	129.5	126.2
Q3	122.2	120.8	122.6	121.0

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Q4	120.9	120.2	121.2	119.3
1976 Q1	122.9	120.9	122.6	121.7
Q2	123.6	121.6	124.0	123.5
Q3			126.2	
Q4			128.9	

1975 Q3 EQUALS 100

1975 Q4	98.9	99.5	98.9	98.6
1976 Q1	100.5	100.1	100.0	100.6

Q2	101.1	100.7	101.1	102.1
Q3(A)			104.3	
Q4(A)			106.5	

(A) PRELIMINARY SECRETARIAT ESTIMATES.

INDICES IN LOCAL CURRENCY			INDEX OF	
OECD INDEX	OECD	OECD	HOST GOVERN	
OF EXPORT	GNP/GDP	CONSUMER	MENT TAKE	
UNIT	DEFLATOR	PRICE	ON ARABIAN	
VALUES	INDEX	LIGHT 34DEG.		
(IN U.S. \$)				
(5)	(6)	(7)	(8)	
1974 Q1 EQUALS 100				
1974 Q2	107.4	103.3	103.5	100.0
Q3	113.3	106.7	106.7	100.5

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Q4	117.0	110.1	110.3	105.8
1975 Q1	119.2	112.9	113.0	108.6
Q2	121.4	115.7	116.1	108.6
Q3	121.8	118.2	118.5	108.6
Q4	122.1	120.8	120.9	119.6
1976 Q1	124.2	122.9	123.4	119.6
Q2	126.3	125.0	126.4	119.6

Q3	129.1	127.3	128.4	119.6
Q4	131.9	129.6	131.1	119.6

1975 Q3 EQUALS 100

1975 Q4	100.3	102.2	102.0	110.1
1976 Q1	102.0	104.0	104.1	110.1
Q2	103.7	105.8	106.6	110.1
Q3(A)	106.0	107.7	108.3	110.1
Q4(A)	108.3	109.6	110.6	110.1

(A) PRELIMINARY SECRETARIAT ESTIMATES.

THE IMPACT OF THE DOHA PRICE DECISION ON DEVELOPING
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COUNTRIES

THE OIL PRICE DECISION TAKEN AT DOHA ON DECEMBER 17 WAS COUPLED WITH A COMMITMENT TO DOUBLE, FROM \$800 MILLION TO \$1.6 BILLION, THE OPEC SPECIAL AID FUND TO DEVELOPING COUNTRIES. (THIS SPECIAL AID FUND ENABLES OPEC TO GRANT INTEREST FREE LOANS TO DEVELOPING COUNTRIES AND WAS ORIGINALLY ESTABLISHED IN JANUARY 1976 AFTER A MEETING OF OPEC FINANCE MINISTERS IN PARIS.) THE INCREASED CRUDE OIL PRICES ANNOUNCED IN THE DOHA DECISION WILL RESULT IN A DIRECT INCREASE IN THE COST OF OIL IMPORTS TO THE DEVELOPING COUNTRIES AND THEREFORE REPRESENT A DIRECT TRANSFER OF RESOURCES FROM THESE COUNTRIES TO THE OIL PRODUCING COUNTRIES. THIS PAPER PRESENTS A PRELIMINARY ESTIMATE OF THE DIRECT IMPACT OF HIGHER CRUDE OIL PRICES ON THE ECONOMIES OF THE NON-OIL PRODUCING DEVELOPING COUNTRIES (HEREAFTER EDDC'S).

THE ACTUAL AVERAGE PRICE INCREASE FOR OPEC CRUDE OIL SUPPLIES IN 1977 WILL DEPEND ON SUPPLY DEVELOPMENTS, AND IT IS TOO EARLY TO PREDICT AN AVERAGE PRICE RESULTING FROM THE 'TWO TIER' PRICE INCREASE WITH ANY DEGREE OF DECISION. IF THE TWO TIER PRICE DECISION IS IN FACT IMPLEMENTED AND MADE OPERATIVE, OPEC CRUDE OIL PRICES CAN BE EXPECTED TO INCREASE ON AVERAGE BY ROUGHLY 8 PERCENT ON JANUARY 1, 1977 AND A FURTHER 2 PERCENT ON JULY 1 (FOR A TOTAL INCREASE OF 10 PERCENT ABOVE DECEMBER 31, 1976 LEVELS BY JULY 1). THESE INCREASES ARE EQUIVALENT TO AN AVERAGE INCREASE IN THE AREA OF 9 PERCENT FOR THE YEAR 1977 AS A WHOLE.

IN 1976, THE OFFICIAL SELLING PRICE FOR SAUDI ARABIAN 34 DEGREE MARKER CRUDE WAS \$11.51 PER BBL FOB RAS TANURA. A NINE PERCENT UPWARD ADJUSTMENT ON THIS PRICE WOULD REPRESENT AN INCREASED COST OF \$1.04 PER

BBL WHICH IS ROUNDED TO \$1 PER BBL FOR PURPOSES OF THE
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ANALYSIS IN THIS PAPER.

TOTAL OIL IMPORTS OF THE EDDC'S IN 1976 ARE
ESTIMATED TO TOTAL 1.24 BILLION BARRELS (OR AN AVERAGE
OF 3.4 MILLION BBL'S PER DAY). (ESTIMATE OBTAINED FROM
ECONOMIC DEVELOPMENT DIVISION OECD.) THIS FIGURE IS
BASED ON AN IBRD DEFINITION OF DEVELOPING COUNTRIES AND
BROADLY RELATES TO COUNTRIES IN THE DEVELOPING WORLD
OUTSIDE THE DOMAIN OF THE OECD, OPEC, AND THE CENTRALLY
PLANNED ECONOMIES. ASSUMING THE LEVEL OF OIL IMPORTS
REMAINS THE SAME FOR 1977, THE HIGHER CRUDE OIL PRICES
WILL INVOLVE A DIRECT INCREASE IN COSTS OF ABOUT \$1.25
BILLION FOR THE DEVELOPING COUNTRIES IN THAT YEAR, AS
SHOWN IN TABLE 1.

A SOMEWHAT BROADER DEFINITION OF DEVELOPING
COUNTRIES IS USED BY THE DEVELOPMENT SECTION AT OECD.
THIS DEFINITION INCLUDES, IN ADDITION TO THE DEVELOPING
NATIONS OUTLINED ABOVE, YUGOSLAVIA, SPAIN, GREECE,
PORTUGAL AND TURKEY. TOTAL OIL IMPORTS FOR THIS LARGER
GROUP ARE ESTIMATED TO BE IN THE AREA OF 1.74 BILLION
BARRELS, OR AN AVERAGE OF 4.77 MILLION BPD, FOR THE
YEAR 1976. ASSUMING THE SAME LEVEL OF IMPORTS FOR THIS
LARGER GROUP IN 1977 WOULD IMPLY AN INCREASE IN THEIR
OIL BILL OF \$1.74 BILLION FOR 1977.

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 OPIC-03
SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 AGRE-00 OMB-01
ERDA-05 DODE-00 FPC-01 H-01 INT-05 L-03 NSC-05 PM-04
OES-06 SS-15 STR-04 ACDA-07 AF-08 ARA-06 NSCE-00
SSO-00 USIE-00 INRE-00 FEA-01 EURE-00 /149 W
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TO SECSTATE WASH DC IMMEDIATE 4909

C O N F I D E N T I A L SECTION 07 OF 08 OECD PARIS 00980

TABLE 1

ESTIMATED IN- INCREASE IN COLUMN 2
 CREASE IN IMPORT OPEC AID AS A PER-
 BILL FOR 1977 FUND CENT OF
 (\$ BILLIONS) (\$ MILLIONS) COLUMN1

1. EDDC'S (NARROW

DEFINITION)	1.24	800	65 PERCENT
2. EDDC'S (BROADER			
DEFINITION)	1.74	800	46 PERCENT
-			

2. EDDC'S (BROADER

-

 INCLUDES SPAIN, PORTUGAL, GREECE, YUGOSLAVIA AND
 TURKEY.

AS SHOWN IN TABLE 1, THE INCREASE IN THE OPEC AID
 ASSISTANCE OF \$800 MILLION IS ESTIMATED TO BE ROUGHLY
 65 PERCENT OF THE INCREASED OIL IMPOSRT COSTS FOR THE
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IBRD DEFINITION OF DEVELOPING COUNTRIES AND 46 PERCENT
 IF THE BROADER (OECD) DEFINITION OF DEVELOPING COUNTRIES
 IS USED. EVEN ASSUMING THAT THE INCREASED OPEC AID
 COULD BE DISTRIBUTED QUICKLY TO NEEDY COUNTRIES, THE
 INCREASED OIL PRICES ARE ESTIMATED TO RESULT IN NET
 ADDITIONAL COSTS OF NEARLY \$1 BILLION TO DEVELOPING
 COUNTRIES IN 1977.

THE CONCEPT OF EDDC'S IS A FLUID ONE AND CAN BE
 EXPECTED TO CHANGE OVER TIME. WITHIN THE GROUP OF
 DEVELOPING COUNTRIES CONSIDERED ABOVE, THERE ARE 13 NET
 EXPORTING COUNTRIES (THE 13 ARE BRUNEI, MALAYSIA,
 MEXICO, TRINIDAD, TUNISIA, OMAN, BAHRAIN, ANGOLA,
 BOLIVIA, CONGO, EGYPT, SYRIA, AND ZAIRE. THE POTENTIAL
 FOR FUTURE PRODUCTION FROM THESE COUNTRIES IS CON-
 siderable, AND AS A GROUP THE EDDC'S COULD BECOME NET
 EXPORTERS OF PETROLEUM BY AS EARLY AS 1980.), AND TOTAL
 NET EXPORTS FOR THESE COUNTRIES IN 1977 IS ESTIMATED TO
 BE IN THE AREA OF 1.5 MILLION BBLs/DAY. THESE COUNTRIES
 CAN BE EXPECTED TO ADJUST THEIR OIL EXPORT PRICES

UPWARDS IN LINE WITH THE OPEC INCREASES, AND TO THIS
EXTENT THE NET IMPACT OF THE CRUDE OIL PRICE INCREASES
ON THE DEVELOPING WORLD AS A WHOLE WILL BE REDUCED.

COMMENT - IN ADDITION TO DIRECT EFFECTS, A U.S. PAPER
OF APRIL 1976 PRESENTED TO CIEC MENTIONS INDIRECT
EFFECTS OF HIGHER OIL PRICES ON EXPORTS, IMPORTS, AND
DEBT SERVICING FOR THE DEVELOPING NATIONS. THESE
LATTER POINTS' AND METHODOLOGY USED, WERE DISPUTED BY
OPEC AT THE APRIL CIEC SESSION.

/WHAT ARE THE REASONS BEHIND THE WIDELY DIFFERING
ASSERTIONS BY OPEC AND THE INDUSTRIALIZED WORLD WITH
RESPECT TO THE IMPACT OF INFLATION ON OPEC OIL REVENUES?
SEVERAL FACTORS ARE RELEVANT HERE:

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1. A MAJOR FACTOR WHICH HAS PROTECTED OPEC OIL
REVENUES FROM THE IMPACT OF WORLD INFLATION HAS BEEN THE
STRENGTHENING OF THE AMERICAN DOLLAR OVER THE PAST
12 MONTHS. IN THE UK AND ITALY, FOR EXAMPLE, THE
EXPORT PRICE INDEX IN LOCAL CURRENCIES ROSE BY 16
PERCENT AND 19 PERCENT RESPECTIVELY BETWEEN 1975 Q3 AND
1976 Q2. EXPRESSED IN DOLLARS, HOWEVER, THE UK AND

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 OPIC-03
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ERDA-05 DODE-00 FPC-01 H-01 INT-05 L-03 NSC-05 PM-04
OES-06 SS-15 STR-04 ACDA-07 AF-08 ARA-06 NSCE-00
SSO-00 USIE-00 INRE-00 FEA-01 EURE-00 /149 W
-----112122Z 009331 /63

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ITALIAN EXPORT INDICES FELL BY ROUGHLY 2 PERCENT AND 9 PERCENT RESPECTIVELY.

2. ALL PRODUCING COUNTRIES HAVE SUFFERED FROM SEVERE PORT CONGESTION DUE TO OVER-AMBITIOUS ORDERING OF GOODS, LEADING TO HIGH DEMURRAGE CHARGES. FOR EXAMPLE, IT HAS BEEN ESTIMATED THAT IRAN'S TOTAL PAYMENTS IN DEMURRAGE CHARGES IN 1975 WERE ABOUT \$1 BILLION. THIS AMOUNTS TO 15-20 PERCENT OF TOTAL IMPORT VALUE, SO THAT PORT CONGESTION CONTRIBUTED 15-20 PERCENTAGE POINTS IN 1975 ALONE TO INFLATION IN IRAN'S IMPORT PRICES.

3. IN ADDITION TO HIGH DEMURRAGE CHARGES, INSURANCE RATES FOR CARGOES TO OIL PRODUCING COUNTRIES HAVE SOARED, AGAIN BECAUSE OF THE ADDITIONAL RISK INCURRED BY LONG WAITING TIMES AND CONGESTED PORTS. FURTHERMORE IT SHOULD BE POINTED OUT THAT THE OECD STATISTICS PRESENTED DO NOT INCLUDE SUCH ITEMS AS SERVICES, MILITARY SALES, LARGE INFRASTRUCTURE PROJECTS, AND OPEC IMPORTS FROM OTHER DEVELOPING COUNTRIES.

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IT IS EVIDENT, THEREFORE, THAT MORE INFORMATION IS REQUIRED ON THE FACTORS WHICH CAUSE PRICE ESCALATION, A SIGNIFICANT PROPORTION OF WHICH, UNDER THE UNUSUAL CONDITIONS PREVAILING AT PRESENT IN TRADE WITH OIL PRODUCING COUNTRIES, APPEARS TO INTERVENE AFTER THE EXPORT OF THE GOODS FROM THE PORT OF ORIGIN. IN THE ABSENCE OF A THOROUGH STUDY OF THE INFLUENCES BEHIND THE PERCEIVED INFLATION SUFFERED BY THE OIL EXPORTERS, THEY WILL CONTINUE TO CITE HIGH RATES OF EROSION OF THEIR TERMS OF TRADE, AND THE INDUSTRIALIZED COUNTRIES WILL CONTINUE TO ANSWER THEIR ASSERTIONS BY CITING - STATISTICS OF THE TYPE SHOWN IN TABLE 1 AND NEITHER PARTY TO THE DIALOGUE WILL BE CONVINCED BY THE OTHER'S ARGUMENTATION.

END TEXT.

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